



Director of
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Special Analysis

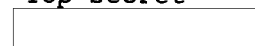
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UK-ARGENTINA: Bracing For Conflict

//Argentina was taken aback by US support for the UK. UK Foreign Secretary Pym will arrive in Washington today to meet with US and UN officials. Buenos Aires also appears intent on conveying the impression that negotiations are still possible, but it continues to test British resolve at sea.// []

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//US press correspondents report that Argentina was "stunned" by the announcement yesterday of US sanctions. The government delayed disclosing the measures for two hours and still has not responded to them.// []

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//In New York, Foreign Minister Costa Mendez reiterated Argentina's readiness to comply with UN Security Council Resolution 502 "in its entirety," but only if Argentine sovereignty over the Falklands could be assured before negotiations begin. He also claimed that Argentina had not turned down the US proposals, stating that Buenos Aires has made "observations" about the plan rather than rejecting it outright.// []

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//British Foreign Secretary Pym welcomed Washington's decision, expressing hope that US support for the UK could still convince Buenos Aires to accept a negotiated settlement. He was skeptical, however, of Costa Mendez's statement that Buenos Aires would accept UN Resolution 502, noting that it had "shown no signs of doing that at the moment."// []

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//Pym will meet with US officials over the weekend to discuss "the next steps." He also will go to New York for meetings with the UN Secretary General.// []

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Comment: //The Argentines have been expecting the US move, but the sanctions may not have been anticipated. Costa Mendez's statement is a last-ditch effort to ensure a public impression that Argentina remains amenable to a diplomatic settlement. His response, however, represents no change in the Argentine position.// []

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Argentine Military Activity

Press reports indicate that Argentine forces were on "red alert" yesterday as the UK's total exclusion zone went into effect.

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Moves To Conserve Foreign Exchange

The Argentine Central Bank has notified all Argentine financial institutions that neither payments abroad nor commitments for future payments may be made without its prior authorization. The government also announced strong import controls.

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Comment: The import controls were taken to guard against a surge in shipments by businessmen who anticipate a devaluation of the peso. An unrestrained acceleration in imports would further damage Argentina's foreign exchange position. [redacted]

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Venezuelan Sanctions Against the UK

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//The Venezuelan press quotes President Herrera as saying that trade between Venezuela and the UK has halted because of the Falkland crisis. [redacted]

West German Position

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//West Germany's official government spokesman earlier this week stated that Bonn would continue to support EC sanctions against Argentina only as long as the UK did not take military action. [redacted]

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China's Role in the UN

China today assumes the presidency of the UN Security Council for May. Beijing thus far has adhered to the nonaligned movement's recognition of Argentina's claim of sovereignty over the Falklands while stressing the need for a diplomatic settlement. (C)

Comment: //As president, China is likely to maintain an evenhanded approach to the dispute. Beijing remains apprehensive over the potential impact of the dispute on its relations with London and for the status of Taiwan and Hong Kong. If hostilities do break out and Argentina had strong Third World backing, however, China probably would support Argentina's position in the UN.//

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NICARAGUA-HONDURAS: Effort To Reduce Tension

The Foreign Ministers of Nicaragua and Honduras are scheduled to meet soon in Managua amid warnings from the Sandinistas about the potential consequences of continued cross-border raids from Honduras by antiregime insurgents. []

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The meeting will be the second recent attempt by the two governments to reduce frictions. Last month in Tegucigalpa, Nicaraguan Foreign Minister D'Escoto pushed for a bilateral agreement that would initiate joint patrols and force dismantling of "counterrevolutionary" camps in Honduras. His Honduran counterpart responded by reiterating the major points of a proposed regional pact that would limit the Nicaraguan military buildup and would end Managua's support for Honduran terrorists and for Salvadoran and Guatemalan insurgents. []

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//The inability of the two sides to make progress was underscored by their failure to issue a joint communique. The two ministers did agree to meet again, however, and to the return of Ambassadors recalled earlier for consultations.// []

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//Insurgents operating from Honduras subsequently have attacked several Nicaraguan border posts, and the Sandinistas have threatened reprisals if the incidents continue. []

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Comment: //Managua's moves are designed to intimidate Honduras into cracking down on anti-Sandinista forces. Nicaragua's recent call for an immediate meeting between the military commanders of both countries apparently is a tactic to exert direct pressure.// []

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CUBA: Crackdown on Illegal Economic Activity

The current "morality campaign" against illegal economic activity suggests that the regime is deemphasizing recently introduced liberalization measures meant to improve consumer satisfaction and productivity. []

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A wide variety of scandals has been uncovered in the past six weeks. Over 500 people have been arrested thus far in the highly publicized crackdown. []

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//A massive inspection of the new free markets, where farmers sell surplus crops, revealed that over 60 percent of the produce had been stolen from government warehouses. A number of store managers have been charged with forging customer lists to obtain extra milk, which they then sold for their own profit. Security officials also have begun searching the homes of construction contractors to recover stolen government property.// []

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Comment: President Castro, backing the hardline position of "revolutionary purists," has hinted that the liberalization measures sponsored by pragmatic technocrats in the leadership may be revised if not ended altogether. The growing number of licensed entrepreneurs who sell consumer services for a profit could be the next target. []

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The regime's actions so far seem to have the approval of the people, many of whom have been complaining about the high prices at the farmers' markets. Closing them, however, would cause serious consumer discontent and an increase in black market activity. In addition, productivity would decrease. []

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ITALY: Christian Democratic Congress

The congress of the Christian Democratic Party, which opens tomorrow, is likely to provoke a showdown between it and the other four parties of Prime Minister Spadolini's coalition, with the government's future hanging in the balance. []

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The Socialists, Social Democrats, and Liberals have been urging a comprehensive review of the government's program. The Christian Democrats are preoccupied with internal party problems and fear that the smaller parties would either insist upon a greater role in the government or an early election, and they have refused to participate until after the congress. []

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//The congress will first select a new party secretary. Party leaders agree only that whoever is chosen must be able to rally the party's dispirited rank and file. The three leading contenders are Flaminio Piccoli, the incumbent; Arnaldo Forlani, the candidate of the center-right; and Ciriaco De Mita, the candidate for the left. Former Prime Minister Andreotti, who controls 15 percent of the delegates, may be prepared to endorse De Mita or Forlani but could seek the post himself.// []

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Comment: Andreotti seems likely to determine who becomes party secretary. The delegates are almost certain to reverse the decision of the last congress against political cooperation with the Communists because there is widespread agreement that this has reduced to an unacceptable degree the party's room for maneuver and has helped the Socialists. The party probably will remain committed to the coalition but will be unprepared to make major concessions to the smaller parties. []

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Socialist leader Craxi would be particularly upset if the Christian Democratic left were to prevail because it has long opposed his prime-ministerial ambitions. Regardless of the outcome, the Socialists will be anxious to demonstrate immediately after the Christian Democratic congress that they are a force to be reckoned with, and they will almost certainly move against the Spadolini government to prove their point. []

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USSR - THE YEMENS: Soviet Aid Programs

The USSR is providing large amounts of modern armaments, including over \$250 million worth in 1981, to the unskilled armed forces of North and South Yemen in order to increase its influence in the region and to gain better access to the port facilities there. []

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//The Soviets have provided over \$800 million worth of equipment to Marxist-oriented South Yemen in the last four years. SCUD missiles capable of reaching Sanaa and Somalia's major port, Berbera, were introduced in 1981.// []

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//The Soviets' apparent willingness to finance Aden's \$75-100 million annual trade deficit with the USSR reflects Moscow's stake in South Yemen. Soviet-supplied arms have enabled Aden to back the National Democratic Front, an insurgent group that is attempting to gain control of the government in Sanaa.// []

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At the same time, the USSR is trying to exploit North Yemeni distrust of Saudi Arabia. The USSR shipped \$150 million worth of arms to Sanaa in 1981, including 30 MIG-21s, over 80 armored vehicles, and additional SA-2 and Styx missiles, nearly completing deliveries worth \$750 million. []

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Last fall the USSR reportedly agreed to reschedule some \$600 million of Sanaa's arms debts and [] [] is currently negotiating to provide \$300 million worth of additional arms. The USSR also provided \$55 million in new economic aid, its only development credits last year to the Middle East. []

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Comment: //North Yemen President Salih is using the Soviet aid to strengthen his support among the military and to resist Riyadh's [] manipulation of the Saudi-financed US military aid program. He probably also hopes Moscow will persuade Aden to decrease its assistance to the insurgents.// []

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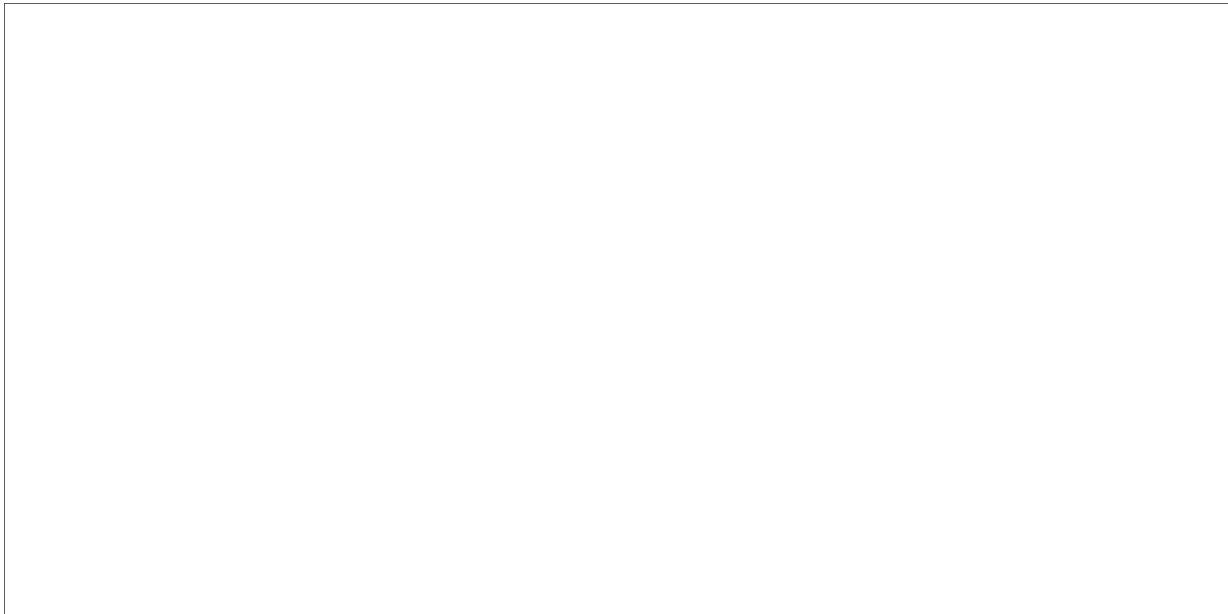
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GREECE-NATO: Withdrawal From Exercise

//The Greek Government announced yesterday that its troops would not participate in a NATO exercise that begins on Monday, because of problems with command and control arrangements and flight security. Earlier this week, NATO's Defense Planning Committee rejected Greece's request to modify or cancel portions of the exercise that Athens said could create "political problems" in the region.//

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Comment: //Although this is the first time that Prime Minister Papandreou has objected to a NATO exercise, his predecessors also refused to participate in some exercises that did not give Greece total control of the airspace over the Aegean. The Greeks probably are concerned that sharing exercise responsibilities with Turkey would prejudice their claims in the Aegean. Papandreou also may want to underscore his sensitivity to the possibility that Spanish entry into NATO could result in command changes affecting the Aegean area.//

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ST. LUCIA: Election Outlook

John Compton, leader of the moderate United Workers Party, is heavily favored to win the election. Compton, an able lawyer and economist, served as Prime Minister for 15 years until he was unseated by voters in 1979. 25X1

Comment: //Antagonism between two leftwing competitors--Peter Josie and George Odlum--has enhanced Compton's chances for victory. The flamboyant radical posturing of both men has discredited them among the basically conservative voters.

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SPECIAL ANALYSIS

CHINA-TAIWAN: Accommodation Politics

//China--as part of its campaign for peaceful reunification with Taiwan--has taken a number of steps designed to reduce tension in the Taiwan Strait. Taiwan, in an attempt to deflect charges of intransigence, has relaxed restrictions on contact with China but has not lowered its military guard.// []

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//Taipei's approach is tactical and does not represent a softening of its opposition to reunification on Beijing's terms. Indeed, Taipei continues to hope for a modus vivendi that would include Beijing's tacit recognition of Taipei's sovereignty over the island. Despite the divergent goals, the increased contacts and unwritten agreements evolving between the two sides ultimately could lead to more substantial steps toward some sort of accommodation//. []

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Reducing Military Tension

//In 1979 Beijing reopened Xiamen, opposite Taiwan's heavily garrisoned Chin-men Island, to civilians and established a special economic zone in the area. []

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[] Taipei has not responded directly, but in January 1981 it eliminated some of the military-controlled "forbidden zones" on Taiwan.// []

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//Fighter aircraft from Taiwan still routinely patrol the Taiwan Strait, and light aircraft occasionally enter Chinese airspace []

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[redacted] Chinese fighters, however, now remain over the mainland while monitoring Taiwan's air patrols in the strait.// [redacted]

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//The Chinese naval presence in the strait is substantially lower than along the rest of China's coast, but vessels from a nearby missile boat squadron are available. Last year, Taiwan alleged that Chinese ships had begun patrolling close to the mainland instead of steaming out to the midline in the strait or near Chin-men or Matsu. The Taiwan Navy has not changed its traditional patrolling patterns.// [redacted]

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Increased Contacts

//Taipei has relaxed its policy against contacts with China in those areas where Beijing has called for flexibility--travel, academics, culture, sports, and trade. The regime on Taiwan, however, is careful to avoid any suggestion that its actions connote dealings between a national capital at Beijing and a provincial capital on Taiwan.// [redacted]

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//Visits from Taiwan to the mainland, which once were forbidden, are increasingly common. Representatives from the two sides have been attending international conferences with increasing frequency since 1978. Sports teams from both sides began competing with each other in third countries last year, usually under the Olympic formulation that presents the contestants as representing Beijing, China, and Taipei, China.// [redacted]

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Indirect trade via Hong Kong and other entrepots, estimated at more than \$500 million last year, has increased rapidly. Direct trade between the two sides is still small, however, and probably amounts to less than 1 percent of the total indirect trade. [redacted]

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